

CITY OF FAIRFAX

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2011

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CITY OF FAIRFAX

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Rabe	Mayor	2012
Marianne Wainwright	Mayor Pro Tem	2014
Travis Otto	Council Member	2012
Marc Magers	Council Member	2012
JoAnn Beer	Council Member	2014
Bernie Frieden	Council Member	2014
Cynthia Stimson	Clerk/Treasurer	Indefinite
Randy Scholer	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfax's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

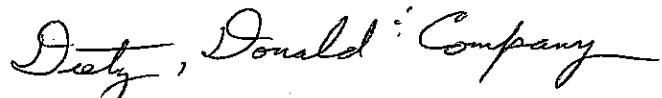
In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2012 on our consideration of the City of Fairfax's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed qualified opinions on those financial statements, since we were unable to satisfy ourselves to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2009. Those financial statements were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

May 7, 2012



Dietz, Donald and Company
Certified Public Accountants
FEIN 42-1172392

City of Fairfax

Office of the Clerk

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Fairfax, IA 52228-0337

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 53.4%, or approximately \$ 889,000 from fiscal 2010 to fiscal 2011. Property tax increased approximately \$ 27,000, while bond proceeds increased approximately \$ 893,000.

Disbursements of the City's governmental activities increased 35.7% or approximately \$ 566,000 in fiscal 2011 from fiscal 2010. Public safety, public works and debt service disbursements increased approximately \$ 172,000, \$ 126,000 and \$ 256,000, respectively.

The City's total cash basis net assets increased 10.2%, or approximately \$ 150,000 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$ 105,000 and the assets of the business type activities increased approximately \$ 255,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's long-term debt.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, general government and debt service. Property tax and state grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system, solid waste disposal and farming operations. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage and farm operations funds. The water and sewer funds are considered to be major funds of the City.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago from approximately \$ 1.068 million to approximately \$ 964,000. The analysis that follows focuses on the changes in cash basis net assets from governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 169	181
Operating grants, contributions and restricted interest	209	220
General receipts:		
Property tax	1,042	1,011
Local option sales tax	214	211
Unrestricted interest on investments	20	33
Bond proceeds	893	-
Other general receipts	5	7
Total receipts	<u>2,552</u>	<u>1,663</u>
Disbursements:		
Public safety	327	155
Public works	463	337
Culture and recreation	254	220
Community and economic development	-	5
General government	189	206
Debt service	917	661
Total disbursements	<u>2,150</u>	<u>1,584</u>
Change in cash basis net assets before transfers	402	79
Transfers, net	<u>(507)</u>	<u>(21)</u>
Change in cash basis net assets	(105)	58
Cash basis net assets beginning of year	<u>1,068</u>	<u>1,010</u>
Cash basis net assets end of year	<u>\$ 963</u>	<u>1,068</u>

The City's total receipts for governmental activities increased 53.4% or approximately \$ 889,000. The total cost of all programs increased approximately \$ 566,000 or 35.7%. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation bonds.

The City property tax rate remained 8.10 in 2011. However, increased valuations raised the City's property tax receipts approximately \$ 31,000 in 2011. Based on the property tax rate remaining at 8.10, but the City

not fully utilizing its TIF capacity, property tax receipts are budgeted to decrease approximately \$ 56,000 next year.

The cost of all governmental activities this year was approximately \$ 2.150 million compared to approximately \$ 1.584 million last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 1.772 million because some of the cost was paid by those directly benefited from the programs (\$ 169,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 209,000). Overall, the City's governmental program activities receipts, including intergovernmental aid and fees for service decreased in fiscal year 2011 from approximately \$ 401,000 to approximately \$ 378,000.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 181	170
Sewer	298	271
Garbage	103	96
Farm	21	-
Operating grants	-	35
General receipts:		
Unrestricted interest on investments	-	2
Bond proceeds	-	98
Other general receipts	-	2
Total receipts	603	674
Disbursements:		
Water	533	758
Sewer	195	238
Garbage	110	103
Farm	17	-
Total disbursements	855	1,099
Change in cash basis net assets before transfers	(252)	(425)
Transfers, net	507	21
Change in cash basis net assets	255	(404)
Cash basis net assets beginning of year	400	804
Cash basis net assets end of year	\$ 655	400

Total business type activities receipts for the fiscal year were approximately \$ 603,000 compared to approximately \$ 674,000 last year. The decrease was due primarily to a \$ 98,000 decrease in bond proceeds. The cash balance increased approximately \$ 255,000 from the prior year because the transfers of bond proceeds from the Debt Service Fund to the Water Fund exceeded the amounts disbursed for the water improvement project in fiscal year 2011 by approximately \$ 241,000. Total disbursements for the fiscal year decreased 22.2% to approximately \$ 855,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$ 963,577, a decrease of approximately \$ 105,000 from last year's total of \$ 1,068,183. The following are the primary reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 70,448 from the prior year to \$ 699,632. Approximately \$ 47,000 of this increase was due to an increase in property taxes received during the current fiscal year.

The Special Revenue, Road Use Tax Fund cash balance decreased \$ 57,055 to \$ 35,941. This decrease was primarily attributable to spending approximately \$ 48,000 for seal coating roads and contributing \$ 20,000 towards the purchase of a new truck.

The Special Revenue, Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$ 112,015, a decrease of \$ 64,893 from the previous year. Receipts in the fund are being used to retire debt acquired from extending infrastructure and purchasing land in the urban renewal district. The decrease in fund balance was primarily due to the early retirement of \$ 100,000 of general obligation TIF debt.

The Special Revenue, Local Option Sales Tax Fund was established in 2009 as the City began collecting the 1% local option sales tax. Sales tax receipts were \$ 213,898 for fiscal year 2011. The City disbursed \$ 108,900 of sales tax receipts for equipment purchases, \$ 46,496 for other public works projects and \$ 96,388 for parks projects. At June 30, 2011, the fund balance was \$ 115,989, a decrease of \$ 64,893 from fiscal 2010.

The Debt Service Fund retired \$ 715,000 of outstanding debt and paid \$ 202,470 of interest and service fees during fiscal 2011. The Debt Service Fund received \$ 57,778 from the General Fund, \$ 614,680 from the Special Revenue, Urban Renewal Tax Increment Fund, \$ 4,115 from the Enterprise, Water Fund and \$ 82,513 from the Enterprise, Sewer Fund, in transfers to cover debt service payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$ 237,502 to \$ 327,089, due to receipt of \$ 554,097 in general obligation bond proceeds.

The Enterprise, Sewer Fund cash balance increased \$ 20,326 to \$ 312,016, due primarily to an increase in the sale of water, increasing charges for service \$ 26,527 in fiscal 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget two times. The first amendment was approved on November 9, 2010 and resulted in an increase in budgeted disbursements for the purchase of a fire truck, snow plow and early debt retirement. The second amendment was approved April 12, 2011 to provide for disbursements for the water main improvement project financed by issuing general obligation bonds.

The City's receipts were \$ 42,851 less than budgeted. This was primarily due to receiving approximately \$ 25,000 less from other government entities than anticipated.

Actual disbursements for public works, culture and recreation and business type activities were \$ 109,918, \$ 131,815 and \$ 478,254, respectively, less than the amended budget. This was primarily due to the water main improvement project not progressing as quickly as anticipated.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$ 5,921,728 in long-term debt outstanding, compared to \$ 5,706,914 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General obligation notes	\$ 2,535	3,175
General obligation bonds	918	95
Revenue bonds	2,380	2,385
Lease/purchase agreement	89	52
Total	\$ 5,922	5,707

Debt increased as a result of issuing general obligation bonds for a water main replacement project and purchasing a fire truck. Additionally, the City entered into a lease-purchase contract for the acquisition of a skid loader.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 3,541,728 is significantly below its constitutional debt limit of \$ 7,513,334.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. One of these factors is the economy. The City has experienced over a 138% increase in population from 2000 to 2010. Taxable valuations have increased 53.5% since fiscal year 2007.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are \$ 2.3 million, a decrease of 26.9% from the final 2011 budget. Property tax (benefiting from an increase in assessed valuations) will increase \$ 89,000. The City has added no major new programs or initiatives to the 2012 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 200,000 by the close of 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Cynthia Stimson, City Clerk, 525 Vanderbilt Street, Fairfax, Iowa 52228-0337.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FAIRFAX
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2011

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and		
		Charges for Service	Operating Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 327,357	82,505	6,311	(238,541)	-	-	(238,541)
Public works	462,784	-	173,839	(288,945)	-	-	(288,945)
Culture and recreation	253,544	36,288	28,544	(188,712)	-	-	(188,712)
General government	189,052	50,571	-	(138,481)	-	-	(138,481)
Debt service	917,470	-	-	(917,470)	-	-	(917,470)
Total governmental activities	2,150,207	169,364	208,694	(1,772,149)	-	-	(1,772,149)
Business type activities:							
Water	533,450	181,266	-	(352,184)	-	102,442	(249,742)
Sewer	195,104	297,546	-	102,442	-	(6,271)	96,171
Garbage	109,546	103,275	-	(6,271)	-	3,240	3,240
Farm operations	17,346	20,586	-	3,240	-	-	3,240
Total business type activities	855,446	602,673	-	(252,773)	(252,773)	-	(252,773)
Total	\$ 3,005,653	\$ 772,037	\$ 208,694	\$ (1,772,149)	\$ (252,773)	\$ (2,024,922)	\$ (2,277,671)
General Receipts and Transfers:							
Property and other city tax					452,537	-	452,537
Levied for general purposes					589,491	-	589,491
Tax increment financing					213,898	-	213,898
Local option sales tax					20,012	416	20,428
Unrestricted interest on investments					893,471	-	893,471
Bond proceeds					2,307	-	2,307
Miscellaneous					3,000	-	3,000
Sale of assets					(507,173)	507,173	-
Transfers					1,667,543	507,589	2,175,132
Total general receipts and transfers					1,667,543	507,589	2,175,132
Change in cash basis net assets					(104,606)	254,816	150,210
Cash basis net assets beginning of year, as restated					1,068,183	399,835	1,468,018
Cash basis net assets end of year					\$ 963,577	\$ 654,651	\$ 1,618,228
Cash Basis Net Assets							
Restricted, expendable:							
Urban renewal purposes					112,015	-	112,015
Streets					35,941	-	35,941
Debt service					-	106,916	106,916
Drainage detention					35,598	-	35,598
Library					208,250	-	208,250
Fire Department equipment					28,643	-	28,643
Water main project					-	267,987	267,987
Other purposes					139,016	12,660	151,676
Unrestricted					404,114	267,088	671,202
Total cash basis net assets					\$ 963,577	\$ 654,651	\$ 1,618,228

See notes to financial statements.

Exhibit B

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2011

	Special Revenue				Nonmajor		
	General	Road Use Tax	Urban Renewal Tax	Local Option Sales Tax	Debt Service	Special Revenue Employee Benefits	Total
Receipts:							
Property tax	\$ 452,374	-	-	-	-	163	452,537
Tax increment financing	-	-	589,491	-	-	-	589,491
Other city tax	-	-	-	213,898	-	-	213,898
Licenses and permits	35,626	-	-	-	-	-	35,626
Use of money and property	24,096	-	-	596	-	-	24,692
Intergovernmental	125,419	163,519	-	-	-	-	288,938
Charges for service	4,425	-	-	-	-	-	4,425
Miscellaneous	46,696	-	-	-	-	-	46,696
Total receipts	688,636	163,519	589,491	214,494	-	163	1,656,303
Disbursements:							
Operating:							
Public safety	323,327	-	-	-	-	4,030	327,357
Public works	86,814	220,574	-	155,396	-	-	462,784
Culture and recreation	154,389	-	-	96,388	-	2,767	253,544
General government	181,952	-	-	-	-	7,100	189,052
Debt service	-	-	-	-	917,470	-	917,470
Total disbursements	746,482	220,574	-	251,784	917,470	13,897	2,150,207
Excess (deficiency) of receipts over (under) disbursements	(57,846)	(57,055)	589,491	(37,290)	(917,470)	(13,734)	(493,904)
Other financing sources (uses):							
Bond proceeds	-	-	-	-	893,471	-	893,471
Sale of capital assets	3,000	-	-	-	-	-	3,000
Operating transfers in	183,072	-	-	-	759,086	-	942,158
Operating transfers out	(57,778)	-	(654,384)	-	(735,087)	(2,082)	(1,449,331)
Total other financing sources (uses)	128,294	-	(654,384)	-	917,470	(2,082)	389,298
Net change in cash balances	70,448	(57,055)	(64,893)	(37,290)	-	(15,816)	(104,606)
Cash balances beginning of year, as restated	629,184	92,996	176,908	153,279	-	15,816	1,068,183
Cash balances end of year	\$ 699,632	35,941	112,015	115,989	-	-	963,577

(continued)

Exhibit B
(continued)

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2011

	Special Revenue					Nonmajor		Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Special Revenue	Employee Benefits	
Cash Basis Fund Balances								
Restricted for:								
Urban renewal purposes	\$ -	-	112,015	-	-	-	-	112,015
Streets	-	35,941	-	-	-	-	-	35,941
Drainage detention	35,598	-	-	-	-	-	-	35,598
Library	208,250	-	-	-	-	-	-	208,250
Fire Department equipment	28,643	-	-	-	-	-	-	28,643
Fireworks	14,584	-	-	-	-	-	-	14,584
Parks and beautification	8,443	-	-	115,989	-	-	-	8,443
Other purposes	-	-	-	-	-	-	-	-
Committed for trail project	28,734	-	-	-	-	-	-	28,734
Unassigned	375,380	-	-	-	-	-	-	375,380
Total cash basis fund balances	\$ 699,632	35,941	112,015	115,989	-	-	-	963,577

See notes to financial statements.

CITY OF FAIRFAX
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2011

	Enterprise			
	Water	Sewer	Nonmajor	Total
Operating receipts:				
Charges for services	\$ 181,266	297,546	123,861	602,673
Operating disbursements:				
Business type activities	214,420	195,104	126,892	536,416
Excess (deficiency) of operating receipts over (under) operating disbursements	(33,154)	102,442	(3,031)	66,257
Non-operating receipts (disbursements):				
Interest on investments	-	397	19	416
Security deposits-net	(5,445)	-	-	(5,445)
Capital projects	(313,585)	-	-	(313,585)
Net non-operating receipts (disbursements)	(319,030)	397	19	(318,614)
Excess (deficiency) of receipts over (under) disbursements	(352,184)	102,839	(3,012)	(252,357)
Operating transfers:				
In	593,801	-	-	593,801
Out	(4,115)	(82,513)	-	(86,628)
Net operating transfers	589,686	(82,513)	-	507,173
Net change in cash balances	237,502	20,326	(3,012)	254,816
Cash balances beginning of year, as restated	89,587	291,690	18,558	399,835
Cash balances end of year	\$ 327,089	312,016	15,546	654,651
Cash Basis Fund Balances				
Restricted for:				
Meter deposits	\$ 12,660	-	-	12,660
Debt service	-	106,916	-	106,916
Water main project	267,987	-	-	267,987
Unrestricted	46,442	205,100	15,546	267,088
Total cash basis fund balances	\$ 327,089	312,016	15,546	654,651

See notes to financial statements.

CITY OF FAIRFAX
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference

Board, City Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint E911 Service Board and the Corridor Metropolitan Planning Organization.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds and all remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the spending of the 1% local option sales tax in accordance with voter wishes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program

disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used for specific purposes pursuant to constraints imposed by the Council through ordinance or resolution approved prior to year end.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered

by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 430,000	111,507	5,000	71,400	435,000	182,907
2013	480,000	99,453	118,000	71,250	598,000	170,703
2014	510,000	86,313	122,000	67,710	632,000	154,023
2015	515,000	71,575	125,000	64,050	640,000	135,625
2016	370,000	55,222	129,000	60,300	499,000	115,522
2017-2021	1,033,000	132,481	706,000	241,050	1,739,000	373,531
2022-2026	93,000	8,550	817,000	128,640	910,000	137,190
2027-2029	22,000	1,350	358,000	16,110	380,000	17,460
Total	\$ 3,453,000	566,451	2,380,000	720,510	5,833,000	1,286,961

General Obligation Bonds

The agreement with the Iowa Finance Authority requires the City to annually pay a .25% servicing fee on the outstanding balance of the water improvement general obligation bonds issued on February 10, 2010, which had an outstanding balance of \$ 108,000 at June 30, 2011.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay the \$ 2,400,000 of sewer revenue bonds issued on December 1, 2008 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance (\$ 2,380,000 at June 30, 2011). The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 76,550 and \$ 102,442, respectively.

(4) Other Long-Term Debt

Annual debt service requirements to maturity for other long-term debt is as follows:

Year Ending June 30,	<u>Lease-purchase agreements</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 18,382	4,947
2013	35,601	3,928
2014	7,006	1,963
2015	7,402	1,567
2016	20,337	1,149
Total	<u>\$ 88,728</u>	<u>13,554</u>

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. The City contributions to IPERS for the years ended June 30, 2011 and 2010 were \$ 21,426 and \$ 20,078, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided by United Health Care. Retirees under age 65 pay premiums based on their age for the medical/prescription drug benefits.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The monthly premiums for the City and plan members are based on the age of the participant. For the year ended June 30, 2011, the City contributed \$ 34,174 and plan members eligible for benefits contributed \$ 7,553 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory hours payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,000
Compensatory hours	<u>12,000</u>
Total	<u>\$ 15,000</u>

The liability has been computed based on rates of pay in effect at June 30, 2011.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefit	\$ 2,082
	Debt Service	180,990
		<u>183,072</u>
Debt Service	General	57,778
	Special Revenue:	
	Urban Renewal Tax Increment	614,680
	Enterprise:	
	Water	4,115
	Sewer	82,513
		<u>759,086</u>
Enterprise:	Special Revenue:	
Water	Urban Renewal Tax Increment	39,704
	Debt Service	554,097
		<u>593,801</u>
Total		<u>\$ 1,535,959</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; inquiries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past two fiscal years.

(10) Commitments

Construction Contracts - The City has entered into a construction contract totaling \$ 411,595 for Phase II of the Water Main Replacement

project. As of June 30, 2011, \$ 233,461 had been disbursed under this contract. The balance of \$ 233,461 remaining at June 30, 2011 will be paid as work on the contract continues.

(11) Subsequent Events

In August, 2011 the City entered into a construction contract totaling \$ 266,715 for Phase III of the water main replacement project. In March, 2012 the City entered into construction contracts totaling \$ 1,648,360 for park athletic fields and building improvement projects. In October, 2011 the City issued \$ 2,260,000 of general obligation bonds to finance these projects.

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	General	Enterprise Farm Operations
Balances June 30, 2010, as previously reported	\$ 630,872	-
Change in fund type classification of GASB Statement No. 54	(1,688)	1,688
Balances July, 2010, as restated	<u>\$ 629,184</u>	<u>1,688</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011

	Governmental Funds		Proprietary Funds		Total	Budget Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 452,537	-	-	-	452,537	436,694	436,694	15,843
Tax increment financing	589,491	-	-	-	589,491	590,000	590,000	(509)
Other city tax	213,898	-	-	-	213,898	225,766	225,766	(11,868)
Licenses and permits	35,626	-	-	-	35,626	32,400	32,400	3,226
Use of money and property	24,692	416	-	-	25,108	23,000	40,000	(14,892)
Intergovernmental	288,938	-	-	-	288,938	314,247	314,083	(25,145)
Charges for service	4,425	602,673	-	-	607,098	579,800	579,800	27,298
Miscellaneous	46,696	-	-	-	46,696	50,000	83,500	(36,804)
Total receipts	1,656,303	603,089	-	-	2,259,392	2,236,907	2,302,243	(42,851)
Disbursements:								
Public safety	327,357	-	-	-	327,357	210,982	406,897	79,540
Public works	462,784	-	-	-	462,784	345,702	572,702	109,918
Culture and recreation	253,544	-	-	-	253,544	243,359	385,359	131,815
Community and economic development	-	-	-	-	-	9,100	9,100	9,100
General government	189,052	-	-	-	189,052	203,900	240,900	51,848
Debt service	917,470	-	-	-	917,470	662,214	920,000	2,530
Business type activities	-	855,446	-	-	855,446	718,700	1,333,700	478,254
Total disbursements	2,150,207	855,446	-	-	3,005,653	2,393,957	3,868,658	863,005
Excess (deficiency) of receipts over (under) disbursements	(493,904)	(252,357)	-	-	(746,261)	(157,050)	(1,566,415)	820,154
Other financing sources, net	389,298	507,173	-	-	896,471	-	883,333	13,138
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(104,606)	254,816	-	-	150,210	(157,050)	(683,082)	839,292
Balances beginning of year	1,068,183	399,835	-	-	1,468,018	951,589	1,468,019	(1)
Balances end of year	\$ 963,577	654,651	-	-	1,618,228	794,539	784,937	833,291

See accompanying independent auditor's report and notes to required supplementary information.

CITY OF FAIRFAX

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$ 1,474,701. The budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2011

	<u>Enterprise</u>		
	<u>Garbage</u>	<u>Farm Operations</u>	<u>Total</u>
Operating receipts:			
Charges for services	\$ 103,275	20,586	123,861
Operating disbursements:			
Business type activities	<u>109,546</u>	<u>17,346</u>	<u>126,892</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(6,271)	3,240	(3,031)
Non-operating receipts:			
Interest on investments	<u>-</u>	<u>19</u>	<u>19</u>
Excess (deficiency) of receipts over (under) disbursements	(6,271)	3,259	(3,012)
Cash balances beginning of year, as restated	<u>16,870</u>	<u>1,688</u>	<u>18,558</u>
Cash balances end of year	<u>\$ 10,599</u>	<u>4,947</u>	<u>15,546</u>
Cash Basis Fund Balances Unrestricted	<u>\$ 10,599</u>	<u>4,947</u>	<u>15,546</u>

See accompanying independent auditor's report.

CITY OF FAIRFAX
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2011

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Corporate purpose	Mar 1, 2003	3.40-3.80%	\$ 465,000	150,000	-	150,000	-	1,470
Wastewater improvement	Dec 1, 2004	3.25-4.50	700,000	520,000	-	45,000	475,000	20,552
Sanitary water improvement	Oct 1, 2005	3.30-3.70	650,000	430,000	-	80,000	350,000	15,075
Urban renewal land acquisition	Oct 15, 2006	3.85	800,000	210,000	-	210,000	-	8,085
Sanitary sewer and refunding	Mar 1, 2008	2.50-3.40	560,000	470,000	-	60,000	410,000	14,270
Refunding	Apr 1, 2008	3.00-3.70	780,000	605,000	-	95,000	510,000	20,235
Water improvement	Mar 24, 2009	2.75-4.20	790,000	790,000	-	-	790,000	28,123
Total				\$ 3,175,000	-	640,000	2,535,000	107,810
General obligation bonds:								
Water improvement	Feb 10, 2010	3.00%	\$ 118,000	94,529	18,471	5,000	108,000	3,162
Fire truck refunding	Sep 9, 2010	1.00-2.00	335,000	-	335,000	65,000	270,000	3,588
Water improvement	May 12, 2011	1.35-3.65	540,000	-	540,000	-	540,000	-
Total				\$ 94,529	893,471	70,000	918,000	6,750
Revenue bonds:								
Sewer	Dec 1, 2008	3.00%	\$ 2,400,000	\$ 2,385,000	-	5,000	2,380,000	71,550
Lease/purchase agreements:								
Caterpillar backhoe loader	Feb 12, 2008	5.49%	\$ 87,951	52,550	-	11,475	41,075	2,865
Caterpillar compact track loader	Apr 12, 2011	5.65	47,653	-	47,653	-	47,653	-
Total				\$ 52,550	47,653	11,475	88,728	2,865

See accompanying independent auditor's report.

Schedule 3

General Obligation Bonds									
Year	Water Improvement		Water Truck and Refunding		Water Improvement		Total		
	Issued Feb 10, 2010	Interest	Issued Sep 9, 2010	Interest	Issued May 12, 2011	Interest			
Bidding June 30,	Amount	Rates	Amount	Rates	Amount	Rates			
2012	3.00%	\$ 5,000	1.20%	\$ 65,000	1.35%	\$ 50,000	70,000		
2013	3.00	5,000	1.40	65,000	1.35	50,000	120,000		
2014	3.00	5,000	1.70	70,000	2.05	50,000	125,000		
2015	3.00	5,000	2.00	70,000	2.05	50,000	125,000		
2016	3.00	5,000	-	-	2.05	50,000	55,000		
2017	3.00	5,000	-	-	2.65	50,000	55,000		
2018	3.00	5,000	-	-	2.65	55,000	60,000		
2019	3.00	6,000	-	-	3.15	55,000	61,000		
2020	3.00	6,000	-	-	3.15	60,000	66,000		
2021	3.00	6,000	-	-	3.65	60,000	66,000		
2022	3.00	6,000	-	-	3.65	60,000	66,000		
2023	3.00	6,000	-	-	-	-	6,000		
2024	3.00	7,000	-	-	-	-	7,000		
2025	3.00	7,000	-	-	-	-	7,000		
2026	3.00	7,000	-	-	-	-	7,000		
2027	3.00	7,000	-	-	-	-	7,000		
2028	3.00	7,000	-	-	-	-	7,000		
2029	3.00	8,000	-	-	-	-	8,000		
Total		\$ 108,000		\$ 270,000		\$ 540,000	918,000		

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CITY OF FAIRFAX
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 For the Last Two Years

	2011	2010
Receipts:		
Property tax	\$ 452,537	425,909
Tax increment financing	589,491	585,576
Other city tax	213,898	210,814
Licenses and permits	35,626	33,250
Use of money and property	24,692	33,586
Intergovernmental	288,938	288,017
Charges for service	4,425	-
Miscellaneous	46,696	86,731
Total	<u>\$ 1,656,303</u>	<u>1,663,883</u>
Disbursements:		
Operating:		
Public safety	\$ 327,357	155,302
Public works	462,784	336,818
Culture and recreation	253,544	219,882
Community and economic development	-	5,064
General government	189,052	206,012
Debt service	917,470	661,240
Total	<u>\$ 2,150,207</u>	<u>1,584,318</u>

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated May 7, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Fairfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfax's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfax and other parties to whom the City of Fairfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

May 7, 2012

Dietz, Donald & Company
Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 **Certified Budget** - Disbursements for the year ended June 30, 2011 did not exceed the amounts budgeted.
- II-B-11 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-11 **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-11 **Business Transactions** - No business transactions between the City and City officials were noted.
- II-E-11 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-F-11 **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-11 **Revenue Bonds** - The City has complied with the provisions of the revenue bond resolutions.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

II-I-11 **Cash Balance** - The Special Revenue, Urban Renewal Tax Increment Fund has accumulated a balance of \$ 112,015 over a period of years.

Recommendtion - Large balances should not be accumulated in the Urban Renewal Tax Increment Fund as tax askings should be used for current capital projects in the applicable TIF District or retirement of TIF debt. The Council should appropriate the majority of the carryover balance to either early retirement of TIF debt or capital projects within the TIF District, so that the carryover balance is less than \$ 20,000.

Response - During fiscal 2011, the City prepaid \$ 100,000 of TIF debt which lowered the TIF fund balance \$ 64,893 at the end of fiscal 2011. In addition, the Council has identified a project within the TIF district to use up the remainder of the accumulated funds.

Conclusion - Response accepted.